Appendix 1C

Fermanagh & Omagh District Council

Comhairle Ceantair Fhear Manach agus na hÓmaí

Treasury Management Policy and Treasury Management Strategy (incorporating Treasury Management Practices) 2020/21

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1. Background

A Council in carrying out its functions under Part 1 (Financial Adminstration) of the Local Government Finance Act (NI) 2011 and Regulation 19 of the Local Government (Capital Finance and Accounting) Regulations (Northern Ireland) 2011 shall have regard to the CIPFA Code of Practice in ‘Treasury Management in the Public Services.’ The Policy and Strategy is based on this legislation and Code as well as CIPFA’s Prudential Code and Guidance from the Department for Communities.

2. Aim

The aim of the Policy and Strategy is to set out the expected treasury management activities and treasury management practices for 2020/21 linked to the Council’s Medium Term Financial Plan, Capital Plan and the Council’s Corporate Plan.

3. Scope

The Policy, Strategy and practices are relevant to the Council, the Chief Financial Officer and all employees involved in developing and implementing the Policy and Strategy.

4. Policy Responsibility

The **Council** will receive and review all reports on treasury management policies, practices and activities. It will approve the annual strategy and policy in advance of the year as well as receive quaterly reviews and an annual report after the close of the financial year.

The **Policy and Resources Committee** has delegated responsibility from the Council for the implementation, regular monitoring of and approval of Treasury Management Policy, Strategy and practices. The Committee will also receive regular updates regarding revenue budgets and expenditure as well as updates on capital expenditure. It will also approve the selection of external service providers, as required.

The **Director of Corporate Services and Governance** has overall responsibility for the implementation and monitoring of the Treasury Management Policy and Treasury Management Strategy. Further, the Director of Corporate Services and Governance is required to put forward a recommendation for the Treasury Management Policy and Management Strategy and to review and monitor compliance regularly.

The **Head of Finance** has responsibility for the day-to-day management and administration of the Policy and Strategy. The Head of Finance will prepare regular budgetary and management information as well as timely treasury management reports in line with the reporting requirements listed above.

5. Review

This policy will be subject to scrutiny and, from time to time, updates and re-issues will be circulated.

6. Treasury Management Policy

In setting this Policy, The Council is adopting the key principles of CIPFA's Treasury Management in the Public Servcies, Code of Practice as described in Section 4 of that Code.

Accordingly the Council will create and maintain, as the cornerstones for effective treasury management:

i. a Treasury Management Policy, stating the policies, objectives and approach to risk management of its treasury management activities
ii. suitable Treasury Management Practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

The Council defines its treasury management activities as:

i. the management of its investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activies and the pursuit of optimum performance consistent with those risks.
ii. This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council, and any financial instruments entered to manage these risks.
iii. The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management.

Reporting Requirements

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of polices, estimates and actuals.

- **Treasury Management Policy incorporating Treasury Management Practices** (this report) - The first, and most important report covers:
  - the Treasury Management Strategy (how the investments and borrowings are to be organised) and
  - an Investment Strategy which is included within Treasury Management Practices (the parameters on how investments are to be managed).
- **A mid year treasury management report** – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy or any policies require revision. This is implemented via quarterly reports to the Policy and Resources Committee.
- **An annual treasury report** – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny

The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Policy and Resources Committee.

7. Treasury Management Strategy 2020/21

The Strategy for 2020/21 in respect of treasury management covers:

a) Council's current treasury positon
b) Capital borrowing
c) Debt Rescheduling
d) Prospects for Interest Rates
e) Annual investment Strategy
f) Treasury Management Advisors

The **Treasury Management Practices (TMPs),** are in line with the CIPFA Treasury Management Code of Practice and are included in Appendix 1. This is considered vital to the achievement of proper corporate governance in treasury management, and the Director of Corporate Services and Governance will monitor and, as and when necessary, report upon the effectiveness of these arrangements.

a. Council's Current Treasury Position

	Projected balance as at 1st April 2020
	£
External Borrowing	
Loans – Short Term	900,000
Leasing – Short Term	-
Loans – Long Term	5,300,000
Leasing – Long Term	-
TOTAL EXTERNAL BORROWING	**6,200,000**
Investments	
Short term money market Deposits	-
Cash and Cash equivalents	17,000,000
TOTAL CASH BALANCES	**17,000,000**

The above table shows the expected borrowing and investments position of the Council as at 1st April 2020. The Council's investments will be spread over a number of financial institutions and return on investments will vary in accordance with the market.

b Borrowing Strategy

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded from loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure (this is known as the Council's Internal Borrowings). This strategy is prudent as investment returns are low and counterparty risk is relatively high.

Against this background and the risks within the economic forecast, caution will be adopted with the 2020/21 treasury operations. Interest Rates in the financial markets will be monitored and a pragmatic approach to changing circumstances will be adopted.

It is anticipated that in the medium term, the Council will not need to externally borrow in order to finance the Capital Programme. However, should the need to borrow materialise, interest rates will be monitored to take advantage of the low rates to ensure that the borrowing is drawn down at an appropriate time. It is expected that requirements for long term borrowing will be met from the Government Loans Fund via the Department of Finance or directly from other local authorities. In additon, capital finance may be raised by way of Operating and Finance leases or Hire Purchase, that are not borrowing, but may be classed as other debt liabilities.

The Council's total debt is lower than the highest forecased Capital Financing Requirement over the period 2020-25 (being estimated at £4.20m lower in 2019/20, £5.20m in 2020/21, £6.50m in 2021/22, £19.30m in 2022/23, £18.80m in 2023/24, £17.40m in 2024/25).

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, on receipt of a clear business case, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

The borrowing requirement comprises the expected movement in the Capital Financing Requirement (CFR). The Council's gross capital financing requirement for 2020/21 is estimated at £10.50m, but this can vary if the capital programme is amended during the year. Borrowing is held with the Government Loans Fund and at historical rates of between 1.45% and 15.00%.

In terms of meeting the external borrowing requirement identified above, one of the most important considerations is the timing, in terms of the potential to save significant interest costs. It is essential therefore that the considerations of timing of borrowing form a key element of the borrowing strategy.

The Council's borrowing strategy addresses the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the shorter-term to either use internal resources, or to borrow short-term loans instead. The benefits of short-term/internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. The Council's Treasury Management Advisors will assist the Council with this 'cost of carry' and breakeven analysis.

One of the key borrowing objectives is to achieve certainty around interest costs, and there is therefore little appetite to undertake variable rate borrowing. Interest rates can vary overtime and officers will seek to carry out external borrowing in such a way as to minimise the impact of rising interest rates.

c. Debt Rescheduling

As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. These savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

Recent experience has shown that the penalties in respect of early redemption of loans outweigh the benefits of re-financing the loans at lower interest rates. There are no current plans to carry out any debt rescheduling however, debt restructuring opportunities will be kept under review and should this situation change, Council will be informed.

d. Prospects for Interest Rates

The Council's treasury management advisors, Arlingclose, is forecasting that the Bank of England Rate will remain at 0.75% until the end of 2022. The risks to this forecast are deemed to be significantly weighted to the downside, particularly given the need for greater clarity when the United Kingdom exits the European Union and the continuing global economic slowdown.

e. Annual Investment Strategy

The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past twelve months the Council's investment balance has ranged from £17m to £19m and it is expected that these levels will be reduced in the medium term.

The primary purpose of the Annual Investment Strategy is to set out the polices for managing investments. The Council will aim to achieve the optimum return on its investments commensurate with the proper levels of security and liquidity giving priority to security first, liquidity second and then return.

The Strategy also contains a 'Creditworthiness Policy' which stipulates the minimum acceptable credit quality of counterparties for inclusion on the list with which the Council will invest.
A counterparty list shall be maintained by reference to the criteria set out below for the different categories of institution. Under the guidance, investments fall into two separate categories, either (1) specified or (2) non-specified investments.

Specified investments

The Council will only invest in specified investments which offer high security and high liquidity and satisfy the conditions below:-

- The investment is denominated in sterling and any payments or repayments in respect of the investment are payable in sterling only
- The investment is not a long-term investment (has a maturity of less than one year)
- The investment does not involve the acquisition of share capital or loan capital in any body corporate
- The investment is made with a body or in an investment scheme which is deemed to have a good credit rating, or with the UK Government or a local authority
- The Council defines “good credit rating” organisations and securities as those having a long-term credit rating of “BBB” or higher. For money market funds and other pooled funds “good credit rating” is defined as those having a credit rating of “A-” or higher.

The following categories of investments may be used under the definition of specified investments:

- Short term cash deposits
- Call and notice accounts
- Certificates of Deposit (with maturity dates < 1 year)
- UK Government Gilts (with maturity dates < 1 year)
- Treasury Bills
- Money Market Funds
- Supranational and covered bonds (with maturity dates < 1 year)
- Loans to other Local Authorities

Non-Specified Investments

Non-specified investments are those investments which do not, by definition, meet the requirements of a specified investment as set out above.

The Council will only invest in non-specified investments which offer high security and high liquidity and satisfy the conditions below:-

- The investment is denominated in sterling and any payments or repayments in respect of the investment are payable in sterling only
- The investment does not involve the acquisition of share capital or loan capital in any body corporate
- The investment is made with a body or in an investment scheme which is deemed to have a good credit rating, or with the UK Government or a local authority
- The Council defines “good credit rating” organisations and securities as those having a long-term credit rating of “BBB” or higher. For money market funds and other pooled funds

"good credit rating" is defined as those having a credit rating of "A-" or higher.

The following categories of investments may be used under the definition of Non-Specified Investments:

- Long term cash deposits (over 365 days)
- Long term loans to other local authorities (over 365 days)

Creditworthiness Policy

In considering its investment strategy, the Council will seek to ensure the security of its investments by assessing the creditworthiness of the banking institutions and ensure liquidity to meet cash flow requirements.

Risk Assessment and Credit Ratings*:* Credit ratings are obtained and monitored by the council's treasury management advisors, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Officers will also place reliance on other information provided to the Council by its Treasury Management Advisors. Credit ratings are only the starting point when considering credit risk. Officers will also consider external reliable evidence to inform decisions on investments, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press and if any doubt exists over its financial standing then the institution will be removed from the counterparty list.

A counterparty list will be maintained in compliance with the above criteria and the criteria will be revised and submitted to the Council for approval as necessary.

Approved Financial Institutions must meet a minimum rating of “BBB”. If any of the financial institutions (or that of its group) cannot meet these criteria it will need to provide evidence to the Council to support its financial standing in order that it can be considered good credit quality.

Day to day banking will be provided by Bank of Ireland. Only cash resources deemed necessary to meet short term cash flow requirements will be retained in a current account at Bank of Ireland. The Council does not propose to change this unless doubt over its financial standing should arise.

If the long-term credit rating of Bank of Ireland is downgraded to below the minimum rating of “BBB”, the banks’ activities must be cautiously monitored to ensure necessary actions are taken to mitigate risks of financial loss. If the rating falls to “BB”, the value of investments should be capped with this bank at £500,000 and held in an instant access account.

Regardless of the credit rating assigned to an institution or whether it is covered by a guarantee, if any doubt over its financial standing exists then that institution is removed immediately from the counterparty lending list.

The Council has invested in a number of institutions not approved by its Treasury Management advisors, Arlingclose. These are the smaller Northern Irish and Irish institutions which do not fall within Arlingclose’s approval criteria. Any funds held in these accounts are on a short term or instant access basis to minimise any risk to the Council and as with all institutions, used by the Council, information is monitored and if any adverse changes should occur officers will act immediately to release funds from these institutions.

Investment Limits

The Council will invest surplus cash balances to a maximum (where possible) of 25% of the overall level of funds or £2 million with any one financial institution allocated on the basis of highest interest yield after being satisfied of the credit quality of the institution and the liquidity of the investment. Any variation of these balances will be presented to Council for approval.

The Council is aware that its level of investment within any approved counterparty is significant in comparison to the total level of investment held and during 2020/21 the Council will aim to extend the list of approved counterparties with the aim of reducing the level of funds held within any one financial institution. In particular, the Council will seek to explore more investment opportunities to include Money Markets with its maximum limit of investing for periods greater than 364 days of £3m in 2020/21.

Financial Derivatives: Local authorities have previously made use of Financial Derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. Lender Option Borrower Option loans and callable deposits). The General Power of Competence in Section 79 of the Local Government Act (Northern Ireland) 2014 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Council does not currently use Financial Derivatives, but should the Council decide to enter into any Financial Derivative transactions in the future, they may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

In line with the CIPFA Code, the Council will seek external advice and will consider that advice before entering into Financial Derivatives to ensure that it fully understands the implications.

f. Treasury Management Advisors

The Council has extended their appointment of the external treasury management advisors, Arlingclose, to provide treasury management advice. These services were procured and awarded through a joint collaborative procurement with other Local Authorities. As part of this process officers followed the practice set out in TMP 11, i.e. ensure that the reasons for employing a service provider are subjected to a full evaluation of the costs and benefits and Council approval was sought before appointment was made.

The services provided by Arlingclose includes:

- Tailored monthly reports of Bank Credit Ratings
- Weekly and monthly updates of economic data
- Alerts of any significant changes in economic data or bank ratings
- One to one advice as required by the Council
- Training for Council staff on a bi-annual basis.

The Council recognises that the responsibility for treasury management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon any advisors.

Markets in Financial Instruments Directive: The Council has opted up to professional client status with its providers of financial services, including advisers and banks, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council’s treasury management activities, the Chief Financial Officer believes this to be the most appropriate status.

Appendix 1: Treasury Management Practices

CIPFAs Treasury Management Code of Practice recommends that an organisation's treasury management practices (TMPs) include those, from the following list, that are relevant to its treasury management powers and activities: -

TMP1	Risk management
TMP2	Performance measurement
TMP3	Decision-making and analysis
TMP4	Approved instruments, methods and techniques
TMP5	Organisation, clarity and segregation of responsibilities, and dealing arrangements
TMP6	Reporting requirements and management information arrangements
TMP7	Budgeting, accounting and audit arrangements
TMP8	Cash and cash flow management
TMP9	Money laundering
TMP10	Training and qualifications
TMP11	Use of external service providers
TMP12	Corporate governance

TMP1 Risk Management

General statement

The Director of Corporate Services and Governance will:

- design, implement and monitor all arrangements for the identification, management and control of treasury management risk;
- report annually on the adequacy of these arrangements; and
- report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the Council's objectives in this respect.

In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the Councils Annual Treasury Management Strategy.

1. Credit and Counterparty Risk Management

This Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited. The Council will limit its investment activities to the instruments, methods and techniques listed in its annual Treasury Management Strategy and with the counterparties listed within the same document.

2. Liquidity Risk Management

The Council will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its service objectives.

The Council will only borrow in advance of need where there is a clear business case for doing so and where it is for the purposes of the prudent management of its financial affairs. It will not borrow purely to invest at a profit.

Each investment decision is made with regard to cash flow requirements resulting in a range of maturity periods within the investment portfolio. All investments will be short term having a maturity of less than one year.

3. Interest Rate Risk Management

The Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues.

4. Exchange rate risk management

This is not considered to be a material risk for the Council.

5. Refinancing Risk Management

This has not been identified as a risk for the Council as the Council has no plans to enter into any refinancing arrangements. Recent experience has shown that penalties in respect of early redemption of loans outweigh the benefits of re-financing the loans at lower interest rates.

6. Legal and Regulatory Risk Management

The Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. The Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

7. Fraud, Error and Corruption, and Contingency management

The Council will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements to these ends.

8. Market Risk Management

The Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

TMP2 Performance Measurement

The Council is committed to the pursuit of value for money in its treasury management activities, within the framework set out in its treasury management policy statement.

TMP3 Decision-making and analysis

The Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions.

TMP4 Approved instruments, methods and techniques

The Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in its annual Treasury Management Strategy.

TMP5 Organisation, clarity and segregation of responsibilities, and dealing arrangements

The Council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.

TMP6 Reporting Requirements and Management Information Arrangements

The Council will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities. As a minimum the Council will receive an annual report on the strategy for the incoming year, a mid-year review and an annual report after the close of the financial year.

TMP7 Accounting and Audit Arrangements

The Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being. The Policy and Resources Committee will have responsibility for the scrutiny of treasury management practices.

TMP8 Cash and Cash Flow Management

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of this organisation will be under the control of the Director of Corporate Services and Governance and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis to ensure that these are adequate for liquidity purposes.

TMP9 Money Laundering

The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff members involved in this are properly trained.

TMP10 Training and Qualifications

The Council recognises that investments, as well as wider treasury management issues require a high level of specialist knowledge. The needs of the Council's treasury management staff for training will be assessed every six months as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change. Staff will regularly attend training courses, seminars and conferences provided by the council's treasury management advisors and CIPFA. In addition, training will be provided for elected members to enable them to provide effective scrutiny of the strategy and to have the knowledge to make informed decisions.

TMP11 Use of External Service Providers

The Council has external providers in respect of Treasury Management advice. These services were procured and awarded through a joint collaborative procurement with nine other Local Authorities. The treasury management advisors will provide specific advice on investment, debt and capital finance issues. The quality of this service will be controlled by regular monitoring of their performance against performance indicators as set out in their service contract.

TMP12 Corporate Governance

The Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness, transparency, honesty, integrity and accountability.